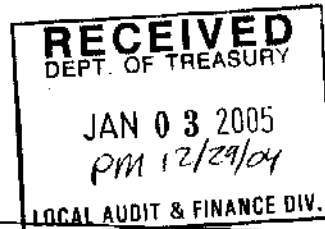


**FINANCIAL REPORT**  
**HARBOR-PETOSKEY AREA AIRPORT AUTHORITY**  
**Year Ended June 30, 2004**

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.



Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Harbor-Petoskey Area Airport Authority</b>		County <b>Emmet</b>
Audit Date <b>6/30/04</b>	Opinion Date <b>12/7/04</b>	Date Accountant Report Submitted to State: <b>12/29/04</b>		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓
			✓

Certified Public Accountant (Firm Name) <b>Hill, Schroderus &amp; Co., LLP</b>			
Street Address <b>923 Spring St</b>		City <b>Petoskey</b>	State <b>MI</b>
Accountant Signature <b>Gaurie A. Bamberg, CPA</b>		ZIP Code <b>49770</b>	Date <b>12/29/04</b>

HARBOR-PETOSKEY AREA AIRPORT AUTHORITY  
FINANCIAL REPORT  
Year Ended June 30, 2004

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**Hill • Schroderus & Co., LLP**  
Certified Public Accountants & Consultants

December 7, 2004

Independent Auditors' Report

Board of Directors  
Harbor-Petoskey Area Airport Authority  
Harbor Springs, Michigan

We have audited the accompanying financial statements of the business-type activities of the Harbor-Petoskey Area Airport Authority, Michigan, as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the Harbor-Petoskey Area Airport Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Harbor-Petoskey Area Airport Authority as of June 30, 2004, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Harbor-Petoskey Area Airport Authority has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of July 1, 2003.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Hill, Schroderus & Co.*

CERTIFIED PUBLIC ACCOUNTANTS  
Petoskey, Michigan

## Management's Discussion and Analysis

### Overview of the Basic Financial Statements

Harbor-Petoskey Area Airport Authority's basic financial statements include government-wide statements and notes to the financial statements. Because this is the first year of implementation of GASB Statement No. 34, prior year numbers are not presented within the Management's Discussion and Analysis. A comparative analysis will be provided in future years when prior year information is available.

### Government-wide Financial Statements

The government-wide financial statements report information on the Authority's business type fund. The government-wide statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The Statement of Net Assets displays all of the Authority's assets and liabilities, with the difference reported as net assets. All long-term assets and debt obligations are presented, as applicable.

The Statement of Activities focuses on the current year's revenues and expenses using accounting methods similar to those used by private sector businesses. This statement measures the Authority's change in net assets for the year.

### Notes to the Financial Statements

The notes provide additional information which is essential to a full understanding of the data provided in the government-wide financial statements.

### Government-wide Financial Analysis

The table below summarizes the Authority's net assets as of June 30, 2004:

<b>Assets</b>	
Current and other assets	\$ 213,149
Capital assets - net of accum dep	<u>521,383</u>
Total assets	<u>734,532</u>
<b>Liabilities</b>	
Current liabilities	<u>52,087</u>
<b>Net Assets</b>	
Investment in capital assets, net of related debt	521,383
Unrestricted	<u>161,062</u>
Total net assets	<u>\$ 682,445</u>

At the end of the fiscal year, the Authority is able to report positive balances in both categories of net assets. The first portion of the Authority's net assets is its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. The Authority uses these capital assets in providing airport services, consequently these assets are not available for future spending.

The remaining portion of net assets, unrestricted net assets, may be used at the Authority's discretion to meet ongoing obligations.

The results for the Authority as a whole are reported in the Statement of Activities, which is summarized below:

Operating revenues	\$	503,290
Operating expenses		<u>569,240</u>
Operating income (loss)		(65,950)
Net non-operating income (expense)		<u>39,811</u>
Change in net assets		(26,139)
Net assets-beginning of year		<u>708,584</u>
Net assets-end of year	\$	<u><u>682,445</u></u>

As shown above, the current year operating loss was \$65,950. Operating revenues are directly related to operating expenses. The Authority relies on member appropriations each year from local units of government to help offset costs. The Authority experienced a decrease in net assets primarily due to increased costs of fuel and professional services related to studies of airport approach procedures and noise abatement.

#### **Budgetary Highlights**

The Authority prepares an annual budget each year that includes estimated revenues and expenses.

Budgeted revenues for the year were \$502,900. Final revenues were higher than final budgeted amounts by approximately \$40,000. This was primarily due to the receipt of a \$22,500 state grant that had not been included in the budget. In addition, fuel sales were approximately \$12,000 more than had been budgeted by the Authority.

Budgeted expenses for the year were \$533,000. Final expenses were also higher than final budgeted amounts by approximately \$36,000. This was primarily due to an MDOT study, that cost approximately \$30,000, which was not included in the budget.

## Capital Assets

At June 30, 2004 the Authority had \$784,564 invested in capital assets. The following table summarizes the capital asset activity for the year:

	<u>July 1, 2003</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2004</u>
Assets not being depreciated	\$ 1,120	\$ 46,430	\$ -	\$ 47,550
Assets being depreciated	<u>740,349</u>	<u>3,365</u>	<u>6,700</u>	<u>737,014</u>
Total capital assets	741,469	49,795	6,700	784,564
Less accum depreciation	<u>232,789</u>	<u>37,092</u>	<u>6,700</u>	<u>263,181</u>
Net capital assets	<u>\$ 508,680</u>	<u>\$ 12,703</u>	<u>\$ -</u>	<u>\$ 521,383</u>

The current year additions to the capital assets were a Ford Bronco that was donated with a fair market value of \$3,365 and construction in progress related to taxiway projects. The disposal was a fully depreciated plow truck that was sold.

## Economic Factors

Harbor-Petoskey Area Airport Authority is a small local airport that relies primarily on fuel sales, various rentals and fees and appropriations from participating local units of government for its support. The participating units include the City of Petoskey, City of Harbor Springs and the Townships of Bear Creek, Little Traverse, West Traverse and Pleasantview. Each municipality pays up to .03 mills on the taxable value of the municipality. In the current year, the Authority levied .025 mills.

## Financial Contact

The Authority's financial statements are designed to present users with a general overview of the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed towards the Chairman of the Board of Harbor-Petoskey Area Airport Authority.

HARBOR - PETOSKEY AREA AIRPORT AUTHORITY  
STATEMENT OF NET ASSETS  
June 30, 2004

<u>Assets</u>	<u>2004</u>
Current assets:	
Cash	\$ 113,074
Accounts receivable	41,368
Due from state	22,500
Inventory	28,662
Prepaid expenses	7,545
	<hr/>
Total current assets	213,149
	<hr/>
Fixed assets	784,564
Less: accumulated depreciation	(263,181)
	<hr/>
Total fixed assets (net)	521,383
	<hr/>
Total assets	\$ 734,532
	<hr/>
	<hr/>
<u>Liabilities and Fund Equity</u>	
Current liabilities:	
Accounts payable	\$ 47,229
Accrued payroll and taxes withheld	4,858
	<hr/>
Total liabilities	52,087
	<hr/>
Net assets:	
Invested in capital assets, net of related debt	521,383
Unrestricted	161,062
	<hr/>
Total net assets	682,445
	<hr/>
Total liabilities and net assets	\$ 734,532
	<hr/>
	<hr/>



**HARBOR - PETOSKEY AREA AIRPORT AUTHORITY**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**Year Ended June 30, 2004**

	2004
Operating revenues:	
Sales - fuel	\$ 412,193
Hanger rentals	17,675
Landing fees	9,356
Tie downs & parking	6,747
Store sales	5,960
Car rental commissions	2,808
Leases	9,968
State grants	22,500
Local contributions	8,643
Other income	7,440
Total operating revenues	<u>503,290</u>
Operating expenses:	
Fuel costs	279,738
Salaries and wages	80,894
Payroll taxes	6,520
Employee benefits	32,683
Administrative	2,890
Maintenance	33,971
Store merchandise	3,959
Equipment rental	420
Insurance	26,764
Professional fees	41,850
Depreciation	37,092
Credit card fees	12,059
Utilities	5,231
Telephone	1,815
Office supplies	818
Miscellaneous	2,536
Total operating expenses	<u>569,240</u>
Operating income (loss)	<u>(65,950)</u>
Non - operating revenues (expenses):	
Member appropriations	36,233
Interest income	213
Contributions	3,365
Total nonoperating revenue (expenses)	<u>39,811</u>
Change in net assets	(26,139)
Net assets, beginning	<u>708,584</u>
Net assets, ending	<u><u>\$ 682,445</u></u>

See accompanying notes to financial statements.

**HARBOR-PETOSKEY AREA AIRPORT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

In June 1999, the GASB issued Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments. In accordance with Statement No. 34, the Authority is considered to be a Special Purpose Government due to engaging in only one business type of activity. To conform with the Statement, the Authority has included a Management's Discussion and Analysis section. Because this is the first year of implementation of GASB Statement No. 34, prior year numbers are not presented within the Management's Discussion and Analysis. A comparative analysis will be provided in future years when prior year information is available.

The financial statements of the Harbor-Petoskey Area Airport Authority (Authority) are prepared in accordance with Generally Accepted Accounting Principles (GAAP). The Authority's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. Pronouncements of the FASB issued after November 30, 1989, are not applied in the preparation of the financial statements of the proprietary fund in accordance with GASB Statement No. 20.

**A. Reporting Entity**

The Harbor-Petoskey Area Airport Authority is a non-profit Michigan corporation created January 13, 1988 under the authority of Act 206, Michigan Public Acts of 1957, as amended. The purpose of the Authority is to plan, promote, construct, improve, own (or lease), maintain and operate an airport for the benefit of the participating local units of government by providing services to airport users. A board consisting of one member of the following local units of government, all located in Emmet County, Michigan, governs the Authority:

City of Petoskey	Township of Little Traverse
City of Harbor Springs	Township of West Traverse
Township of Bear Creek	Township of Pleasantview

The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in Generally Accepted Accounting Principles. The basic – but not the only – criteria for including an agency, institution, authority or other organization in the governmental unit's reporting entity is the exercise of oversight responsibility over such agency by the governmental unit's elected officials. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of the governing authority, the designation of management, the ability to significantly influence operations, and the accountability for fiscal matters. Based on these criteria the reporting entity includes only the Harbor-Petoskey Area Airport Authority.

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### B. Basis of Accounting

Basis of accounting refers to when revenues and expenses are to be recognized in the financial statements. Enterprise funds account for operations that are financed and operated similar to private business enterprises where costs (expenses including depreciation) of providing airport services to the residents are financed primarily through user charges. The Authority maintains a single enterprise fund to account for its airport activities.

The Authority recognizes revenues and expenses on the "accrual basis of accounting." Under this method, revenues are recognized when earned and expenses are recognized when a liability is created.

#### C. Budgets and Budgetary Accounting

The Airport Authority follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Authority Board approves the budget prepared by the Chairman.
2. A budget for the Enterprise Fund is adopted at the total fund level. Budgeted amounts are as originally adopted, or as amended by the Authority Board during the year.

#### D. Cash Equivalents

Cash on hand, demand deposits and short-term investments with a maturity date of three months or less when acquired are considered to be cash equivalents.

#### E. Accounts Receivable

Accounts receivable represents amounts earned from fuel sales or facility usage from customers. The Authority uses the direct write-off method to recognize uncollectible accounts. There were no uncollectible accounts written off during the 2003-2004 fiscal year. The accounts receivable balance as of June 30, 2004 is \$41,368.

#### F. Inventories

Inventories represent fuel and other merchandise available for resale. Inventories are stated at the lower of cost or market under the first-in, first-out method.

#### G. Prepaid Expenses

Prepaid expenses recognize payments made for the benefit of future periods. The Authority's prepaid expenses include amounts expended for insurance coverage that extends into the ensuing fiscal period.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

#### H. Fixed Assets

Fixed assets acquired by purchase or construction are recorded at acquisition cost. Donated assets are recorded at their estimated market value on the date of donation. Assets are depreciated over their estimated useful life utilizing the straight-line method. The estimated useful lives are as follows:

Land	N/A
Land Improvements	20 years
Building Improvements	40 years
Other Leasehold Improvements	20 years
Vehicles	5-7 years
Equipment	5 years

#### I. Compensated Absences

Authority employees are not allowed to accumulate sick leave or compensatory time. The Authority has no measurable liability for compensated absences.

#### J. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### K. Federal Income Taxes

The Harbor-Petoskey Area Airport Authority is exempt from federal income taxes under Section 115 of the Internal Revenue Code. It qualifies as a non-profit municipal organization formed to maintain an airport on land owned by a municipality, and it serves the general public consistent with Revenue Rule 8-429, 1978-2 CD 178.

### NOTE 2: CASH

#### Insured Deposits

At June 30, 2004 the carrying amount of the Authority's deposits was \$113,074 and the bank balance was \$147,862. Of the bank balance, \$100,000 was covered by federal depository insurance. The remaining \$47,862 was uninsured and uncollateralized. State statutes prohibit security in the form of collateral, surety bonds or another form be taken for the deposit of public funds.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 2: CASH- CONTINUED

Michigan Compiled Laws, Section 129.91, authorizes the Local Unit to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of the United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

### NOTE 3: LEASES AND RENTALS

Hangar Rentals – The Harbor-Petoskey Area Airport Authority, as a part of its normal operating procedures, leases airplane storage to airport users. Leases are entered into on an annual basis with rents being paid monthly.

Other Leases – The Authority receives certain revenues derived from the lease of lands. Under the provisions of these leases, the tenants were permitted to construct or maintain facilities restricted for their exclusive use which are separate and apart from normal airport facilities. Revenue generated during the fiscal year ended June 30, 2004 was \$9,968. All payments are current. The Authority is not committed to maintain facilities or expend funds under these lease arrangements.

### NOTE 4: AIRPORT FACILITIES

The Authority leases airport facilities including lands, buildings and certain equipment from the City of Harbor Springs. The lease is for 25 years and automatically renews each year for an extension of one year. The lease obligates the Authority to operate and maintain the airport in conformance with federal and state guidelines and regulations, and to promote and develop the airport for the benefit of the community. Either party can opt to not extend the lease beyond the 25 years, however the Authority anticipates the lease will be renewed annually.

# NOTES TO FINANCIAL STATEMENTS - CONTINUED

## NOTE 5: CHANGES IN PROPERTY, PLANT AND EQUIPMENT

The summary of changes in property, plant and equipment follows:

	Balance July 1, 2003	Additions	Disposals	Balance June 30, 2004
Capital assets not being depreciated:				
Land	\$ 1,120	\$ -	\$ -	\$ 1,120
Construction in progress	-	46,430	-	46,430
Subtotal	1,120	46,430	-	47,550
Capital assets being depreciated:				
Land improvements	543,915	-	-	543,915
Building improvements	61,694	-	-	61,694
Other leasehold improvements	59,535	-	-	59,535
Vehicles	56,161	3,365	6,700	52,826
Equipment	19,044	-	-	19,044
Subtotal	740,349	3,365	6,700	737,014
Less accumulated depreciation for:				
Land improvements	138,720	27,137	-	165,857
Building improvements	11,963	1,638	-	13,601
Other leasehold improvements	29,334	2,869	-	32,203
Vehicles	35,934	4,522	6,700	33,756
Equipment	16,838	926	-	17,764
Subtotal	232,789	37,092	6,700	263,181
Net capital assets	\$ 508,680	\$ 12,703	\$ -	\$ 521,383

## NOTE 6: RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters.

The Authority is a member of the Municipal Underwriter of Michigan Insurance Plan. The plan provides broad coverage, legal defense and consultation to its members. It also purchases insurance on behalf of the Authority through commercial carriers for municipal liability, airport operations, underground storage and worker's compensation insurance. The Authority retains no risk of loss other than the stated deductibles included in the insurance policies.

## NOTE 7: SUBSEQUENT EVENT

In August, 2004, the Authority signed a contract with the Michigan Department of Transportation for a taxiway and lighting project. The estimated cost is \$579,300. State grants will pay \$483,115 of the cost and the remaining \$96,185 is to be paid by the Authority. As of June 30, 2004, the Authority had already paid \$44,800 of the \$96,185. Approximately \$39,000 of the Authority's share will be paid by a local third party who will benefit from the project at the airport.